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SINGAPORE FOR DAS HEGINBOTHAM AND STEBBING

E.O. 11652: GDS

TAGS: PFOR, ECON, JA, US

SUBJECT: FOLLOW-UP PAPER ON EA ECONOMIC POLICY REVIEW-JAPAN

REF: (A) 77 STATE 299030; (B) TOKYO 2340; (C) TOKYO 2869

1. FOLLOWING ARE PRINCIPAL ISSUES CONCERNING JAPAN DISCUSSED AT THE FEB 16 WRAP-UP MEETING OF THE EA ECONOMIC POLICY REVIEW, TOGETHER WITH A SUGGESTED DRAFT ACTION PROGRAM. THIS PAPER IS BEING CABLED TO SINGAPORE IN CONNECTION WITH THE DISCUSSION OF THE EA ECONOMIC POLICY REVIEW RESULTS AT THE EA ECONOMIC OFFICERS CONFERENCE. SIMILAR PAPERS ON OTHER EA COUNTRIES WERE HAND CARRIED TO THE CONFERENCE.

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2. THE PURPOSE OF THIS PAPER IS TO GIVE A BRIEF SUMMARY OF THE MAJOR ISSUES DISCUSSED AT THE SESSION AND TO LIST SPECIFIC ACTIONS FOR FOLLOW-UP. THE FOLLOW-UP ACTIONS ARE INTENDED TO BE ACTION PROGRAMS FOR THE RESPONSIBLE EA OFFICES. SINCE THEIR ROLE IN MANY CASES WILL CONSIST CHIEFLY OF FOLLOWING UP WITH OTHER OFFICES AND AGENCIES WHICH HAVE PRINCIPAL RESPONSIBILITY FOR THESE MATTERS, WE HAVE ALSO INDICATED THE OTHER OFFICES AND AGENCIES LIKELY TO BE INVOLVED.

3. THIS PAPER OUTLINES A PRELIMINARY PROGRAM. WE ARE SEEKING FURTHER VIEWS AND COMMENTS FROM OTHER OFFICES AND AGENCIES. REACTIONS FROM THESE, AS WELL AS THOSE OBTAINED AT THE ECONOMIC/COMMERCIAL OFFICERS CONFERENCE IN SINGAPORE WILL BE INCORPORATED INTO THE FINAL VERSION.

4. SUMMARY AND CONCLUSIONS. PARTICIPANTS AGREED THAT OUR CONSULTATIONS WITH THE GOJ OVER THE PAST SEVERAL MONTHS, CULMINATING IN THE STRAUSS-USHIBA JOINT STATEMENT IN JAN, HAD PERSUADED THE GOJ TO AGREE TO TAKE ACTION IN AREAS WE CONSIDERED IMPORTANT -- I.E., MOVING TOWARD CURRENT ACCOUNT DEFICIT, STIMULATING GROWTH, TAKING A LEADERSHIP ROLE IN THE MTN AND OPENING THE JAPANESE DOMESTIC MARKET TO IMPORTS, PARTICULARLY MANUFACTURES. IT WILL BE IMPORTANT THIS YEAR FOR BOTH GOVERNMENTS TO MAKE EVERY EFFORT TO ACHIEVE THE OBJECTIVES JOINTLY AGREED IN JAN. IT WAS THE STRONG CONSENSUS OF THE MEETING THAT OUR MANY CONSULTATIONS WITH THE GOJ SHOULD BE SEEN AS COOPERATIVE RATHER THAN CONFRONTATIONAL. EA MADE THIS POINT AT THE OUTSET, AND TREASURY'S REPRESENTATIVE EMPHASIZED ITS IMPORTANCE AS THE SESSION ON JAPAN CLOSED.

5. ISSUES.

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6. NATURE OF U.S.-JAPAN RELATION AND CONSULTATIONS. WE HAVE SET THE AGENDA FOR U.S.-JAPAN ECONOMIC POLICY TALKS AND THE JAPANESE HAVE RESPONDED. IT IS IMPORTANT THAT WE WORK TOGETHER WITH THE JAPANESE IN 1978 TO IMPLEMENT THE MANY MEASURES ON WHICH WE HAVE AGREED IN PRINCIPLE. THE DEPUTY ASSISTANT SECRETARIES' AND THE ASSISTANT SECRETARIES' GROUPS ON JAPAN MUST CONTINUE THEIR CLOSE MANAGEMENT OF THE RELATIONSHIP. WE MUST CONTINUE TO CONSULT CLOSELY WITH THE JAPANESE, BUT OUR CONSULTATIONS MUST BE SEEN AS COOPERATIVE RATHER THAN CONFRONTATIONAL. WE WILL HAVE MANY OPPORTUNITIES FOR CONSULTATION AND FOLLOW-UP, NAMELY, A VISIT BY CEA CHAIRMAN SCHULTZE IN APRIL, A MEETING OF STRAUSS AND USHIBA IN APRIL, A VISIT BY PRIME MINISTER FUKUDA IN MAY OR JUNE, THE OECD MINISTERIAL IN JUNE, THE ECONOMIC SUMMIT IN BONN IN JULY, AND THE SUB-CABINET MEETING IN AUGUST IN WASHINGTON.

7. CURRENT ACCOUNT DEFICIT. WE MUST CONTINUE TO URGE THE JAPANESE TO WORK TO REDUCE THEIR CURRENT ACCOUNT SURPLUS BY INCREASING IMPORTS, NOT BY RESTRICTING EXPORTS. A JAPANESE DEFICIT, WHICH WE SHOULD CONTINUE TO URGE PRIVATELY TO KEY JAPANESE DECISION MAKERS, WILL HELP EASE BALANCE OF PAYMENTS ADJUSTMENT PROBLEMS FOR WEAKER INDUSTRIAL COUNTRIES AND DEVELOPING COUNTRIES. WE SHOULD BE AWARE THAT JAPANESE OFFICIALS HAVE NOT BEEN RECEPTIVE TO OUR LOGIC ON THIS ISSUE.

8. ECONOMIC GROWTH. WE SHOULD CONTINUE TO ENCOURAGE THE GOJ TO TAKE ALL FEASIBLE STEPS TO ACHIEVE THEIR 7 PERCENT GROWTH RATE. THIS WILL STIMULATE JAPANESE IMPORTS AND SHOULD HELP TURN THE JAPANESE EXPORT DRIVE INTO DOMESTIC MARKETS. IT IS EASIER FOR THE GOJ TO INCREASE ACCESS TO JAPANESE DOMESTIC MARKETS WHEN THERE IS STRONG DOMESTIC DEMAND. AFTER INFORMAL DISCUSSIONS WITH THE JAPANESE ON THIS ISSUE IN THE SPRING, THE OECD MINISTERIAL IN JUNE AND
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THE SUB-CABINET MEETING IN AUGUST WILL ALLOW US TO REASSESS AND REVIEW THE PROGRESS AND ADEQUACY OF GOJ MEASURES.

9. TRADE. WE WILL WORK CLOSELY WITH THE JAPANESE TO ENCOURAGE THEIR CONTINUED ACTIVE PARTICIPATION IN THE MTN AND TO DEVELOP THEIR STRONGER LEADERSHIP ROLE IN THE WORLD TRADING SYSTEM. WE WILL WORK THROUGH THE U.S.-JAPAN TRADE FACILITATION COMMITTEE TO REMOVE NON-TARIFF BARRIERS TO IMPORTS INTO JAPAN AND TO ENCOURAGE AND ASSIST U.S. BUSINESSMEN TO INCREASE EXPORTS TO JAPAN. GENERAL DISCUSSIONS OF THE PROBLEMS OF WORLD STEEL AND EQUITABLE APPROACHES TO A MULTILATERAL SOLUTION ARE BEING HANDLED IN THE OECD. IF SALES OF U.S. AUTOMOBILES CONTINUE TO BE SLOW, WHILE JAPANESE IMPORTS INCREASE, AUTO IMPORTS COULD BECOME A PROBLEM AND THE INDUSTRY MAY SEEK SOME REMEDY.

10. PROBLEMS OF JAPAN'S INDUSTRIAL STRUCTURE. SOME OF JAPAN'S INDUSTRIES ARE IN SERIOUS FINANCIAL TROUBLE AND HAVE DIM PROSPECTS FOR RECOVERY EVEN IF THE OVERALL LEVEL OF ECONOMIC ACTIVITY SHOULD INCREASE. OTHER INDUSTRIES, SUCH AS THE JAPANESE COMPUTER INDUSTRY OR AUTO INDUSTRY, MAY BE PLANNING INVESTMENTS IN CAPACITY EXPANSIONS WITH THE EXPECTATION THAT 30 PERCENT OF THE TOTAL PRODUCTION OF THE INDUSTRY WILL BE DESTINED FOR

EXPORT MARKETS. THE RESULT COULD WELL BE SPECTACULAR INCREASES IN EXPORTS IN THESE SECTORS OVER THE NEXT FEW YEARS. FROME A MID-RANGE PERSPECTIVE, WE WILL CONSIDER DEVELOPING INFORMATION ON THE JAPANESE INVESTMENT OUTLOOK AND CAPACITY EXPANSION PLANS BY SECTOR AND REVIEW THE IMPLICATIONS OF THESE PLANS WITH THE JAPANESE.

11. REPORTING. OUR 1977 EFFORTS WERE BASED ON THE EX-
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PECTATION THAT BY OBTAINING MEANINGFUL GOJ EFFORTS TO DEFUSE TRADE ISSUES THROUGH ECONOMIC GROWTH AND LIBERALIZATION OF IMPORTS, WE COULD STRENGTHEN THE HAND OF THE ADMINISTRATION, SUPPORTERS OF LIBERAL TRADE IN CONGRESS AND ENCOURAGE PATIENCE BY THE UNDECIDED IN THE FACE OF PRESSURES FOR

PROTECTIONISM. AN ESSENTIAL COUNTERPART TO
TO THE STRAUSS-USHIBA JOINT STATEMENT IS A PROMPT AND
THOROUGH SYSTEM FOR REPORTING THE GOJ'S PROGRESS IN IM-
PLEMENTING THE AGREEMENTS, AS WELL AS A SYSTEM FOR ASSURING
THAT ALL WHO NEED TO KNOW IN THE U.S. ADMINISTRATION, THE
CONGRESS, BUSINESS, CONSUMER AND LABOR ACTORS ARE KEPT
FULLY UP TO DATE ON THE STATUS OF GOJ EFFORTS, ON THE POLICY
POSITIONS WE ARE TAKING, AND THE EFFORTS WE ARE MAKING
IN FOLLOWING UP ON THE JOINT STATEMENT.

12. AID AND CREDIT POLICIES. JAPANESE AID POLICIES
REMAIN INADEQUATE AND INAPPROPRIATE TO THE NEEDS OF BOTH
THE LESS DEVELOPED NATIONS AND THE INTERNATIONAL DONOR
SYSTEM. WE EXPECT TO CONTINUE CONSULTATIONS AIMED AT
ENCOURAGING LIBERALIZED AND MORE AUTOMATIC UNTIING, GREATLY

INCREASED PROPORTIONS OF AID TO THE POORER DEVELOPING
NATIONS, AND, IN THE EXPORT CREDIT FIELD, SUPPORT
FOR A CONSIDERABLY BROADENED AND STRENGTHENED CONSENSUS
ON EXPORT CREDIT RESTRAINT AMONG INDUSTRIAL NATIONS.

13. ENERGY. WE SEEK JAPANESE COOPERATION WITH US IN
ENERGY FIELDS. WE WANT TO PREPARE TOWARD THE END OF
THIS YEAR FOR THE EXPIRATION OF THE TOKAI-MURA
AGREEMENT IN 1979.

14. ACTIONS TO BE TAKEN.

15. MACROECONOMIC CONSULTATIONS AND COORDINATION. ENGAGE
GOJ OFFICIALS AT TOP AND MIDDLE LEVELS IN REGULAR CONSUL-
TATIONS ON MACROECONOMIC COORDINATION. STRESS IMPORTANCE
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OF A JAPANESE MOVE TOWARD CURRENT ACCOUNT DEFICIT AND A
STRONG GROWTH RATE AT ALL OPPORTUNITIES GIVEN BY THE SERIES
OF BILATERAL AND MULTILATERAL MEETINGS. ACTION: EMBASSY,
EA/J, EA/EP, EB, TREASURY, CEA, STR, COMMERCE. DEADLINE:
ONGOING.

16. CONSULTATIONS WITH THE EEC. REVIEW WITH THE EEC
REPRESENTATIVES AT OCCASION OF NEXT REGULAR US-EEC
CONSULTATIONS (HELD EVERY SIX MONTHS) THE PROGRESS OF
U.S.-JAPAN ECONOMIC AND TRADE TALKS. ACTION: EA/EP,

EUR/RPE. DEADLINE: MAY, 1978.

17. TRADE FACILITATION. INSURE STRONG WASHINGTON
INTERAGENCY BACKUP AND SUPPORT OF TRADE FACILITATION
ACTIVITIES, INCLUDING THE IKEDA BUYING MISSION, THE PRODUCT-
SPECIFIC GROUPS VISITING JAPAN (FOREST PRODUCTS, CITRUS,
BEEF), AND THE SPEEDY RESOLUTION OF CASES BROUGHT BEFORE
THE TFC BY U.S. FIRMS. ACTION: EA/EP, EA/J, EB, COMMERCE,

STR, USDE, EMBASSY. DEADLINE: ONGOING.

18. JAPAN'S INDUSTRIAL STRUCTURE AND POLICY. INVESTIGATE GOJ POLICIES AND JAPANESE INDUSTRIES' RESPONSES TO CURRENT ECONOMIC CONDITIONS, WITH PARTICULAR EMPHASIS ON GOVERNMENT MEASURES TO OFFSET IMPACT OF YEN APPRECIATION, AND TO GUIDE INDUSTRIES' ADJUSTMENTS THROUGH INCENTIVES TO INVEST OR TO DIS-INVEST. INVESTIGATE INDUSTRY INVESTMENT PLANS WHICH MAY RESULT IN A SUDDEN INCREASE IN EXPORTS IN PARTICULAR SECTORS IN A FEW YEARS. ACTION: EA/J, INR/XR (EXTERNAL RESEARCH CONTRACT WITH ACADEMIC ECONOMIST), EMBASSY REPORTING. DEADLINE: INITIATE BY APRIL 1.

19. REPORTING. DEVELOP A REPORTING SYSTEM WHICH CAN BE CONFIDENTIAL

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USED TO KEEP BOTH SENIOR ADMINISTRATION ECONOMIC POLICY MAKERS (AND OTHERS CONCERNED) AWARE OF THE STEPS BEING TAKEN BY THE GOJ TO IMPLEMENT THE STRAUSS-USIBA JOINT STATEMENT. REPORT REGULARLY TO OTHER INTERESTED POSTS SO THAT LEADERS IN OTHER COUNTRIES HAVE AN UNDISTORTED PICTURE OF US-JAPAN TALKS. ACTION: EA/J. DEADLINE: INITIATE BY APRIL 1.

20. DEVELOPMENT ISSUES. ARRANGE FOR LATE MARCH CONSULTATIONS BETWEEN DEPUTY ASSISTANT SECRETARY BOSWORTH AND SENIOR GOJ OFFICIALS ON NORTH-SOUTH ISSUES SUCH AS THE COMMON FUND, BEFORE OR AFTER HIS TENTATIVELY SCHEDULED TRIP TO SOUTHEAST ASIA. PREPARE MEMORANDUM FROM DAS HEGINBOTHAM TO DAS BOSWORTH PROPOSING SUCH A VISIT. ACTION: EA/EP.

DEADLINE: MARCH 1978.

21. DIET MEMBERS VISITS. PLAN AND ARRANGE FOR DIET MEMBER VISITNG WASHINGTON TO GET A BROAD EXPOSURE TO SENTIMENT IN CONGRESS, BUSINESS AND LABOR GROUPS ON U.S.-JAPAN TRADE ISSUES. ACTION: EA/EP, EA/J. DEADLINE: AUGUST 1.

22. FOR TOKYO. WE WOULD APPRECIATE RECEIVING YOUR COMMENTS ON THIS PAPER. VANCE

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